BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2020 -___- E

In the Matter of:	)	
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Duke Energy Carolinas, LLC's and Duke Energy Progress, LLC's Joint Petition for Approval of Accounting Order to Defer Incremental Expenses as a Result of COVID-19	)))))))	**JOINT PETITION OF DUKE ENERGY CAROLINAS, LLC AND DUKE ENERGY PROGRESS, LLC FOR APPROVAL OF ACCOUNTING ORDER TO DEFER INCREMENTAL COVID-19 EXPENSES TO BE INCLUDED IN FUTURE RATE PROCEEDINGS**

Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") (collectively, the "Companies" or "Duke Energy"), pursuant S.C. Code Ann. §§ 58-3-140, 58-27-140 and 58-27-1540 and S.C. Code Ann. Reg. 103-825 and other applicable Rules and Regulations of the Public Service Commission of South Carolina (the "Commission"), hereby petition the Commission for approval of an accounting order for regulatory accounting purposes authorizing DEC and DEP to establish regulatory assets to account for incremental costs resulting from the unprecedented COVID-19 Pandemic and declared State of Emergency, so that these costs may be considered for recovery in the Companies' next rate case proceedings. The Companies have undertaken extraordinary measures in order to both ensure the continued reliable provision of electric service that its customers expect and ensure that the Company is doing its part to mitigate the impact of the COVID-19 Pandemic on its customers.

The COVID-19 Pandemic continues to significantly impact economic activity throughout the State and country, resulting in unforeseeable reductions in the demand for electricity, reducing and continuing to reduce revenue for the Companies and increasing their unrecovered incremental costs. The Companies have and are continuing to undertake extraordinary actions and incur extra costs to maintain vital utility services during the COVID-19 Pandemic. Those costs are not being recovered in current rates.

As discussed in more detail below, the Companies took swift action, and the Commission has swiftly issued orders, in response to the COVID-19 Pandemic to mitigate the economic hardship on customers resulting from the COVID-19 Pandemic. These actions include suspending disconnections due to nonpayment and waiving various fees over the last several months. While clearly appropriate under the circumstances, the Companies' actions to mitigate these customer impacts have resulted in additional loss of revenue and increases in costs beginning March 1, 2020. Notwithstanding the foregoing, the Companies are not seeking deferral of lost revenues due to reduced demand as part of this Joint Petition.

The Covid-19 Pandemic necessitated extraordinary, unprecedented state action, such as closing non-essential businesses, suspension of disconnections and limiting activities at other businesses to slow the spread of COVID-19 and issuing a shelter-in place order. The COVID-19 Pandemic was not and could not have been accounted for when setting the Companies' current rates. For these reasons, the Companies request an accounting order to address some of the financial impact of these actions as well as a return equal to the weighted average cost of capital on the unrecovered balance on the regulatory asset that will be created by the order. Recovery of any costs deferred under this Joint Petition will be addressed in future rate case proceedings.

The requested accounting order will not result in any increase in retail rates or prices at this time, or require any change in any Commission rule, regulation or policy. In addition, the issuance of the requested accounting order will not prejudice the right of any party to address these issues in a subsequent rate proceeding. Accordingly, neither notice to the public at-large, nor a hearing is required regarding this Joint Petition pursuant to the provisions of S.C. Code Ann. § 58-

27-870(F). Absent the approval of the accounting order requested herein, the extraordinary COVID-19 Pandemic costs will have a material adverse impact on the financial condition of each of the Companies.

In support of this Joint Petition, the Companies respectfully show the following:

Name and Addresses of the Companies

1. The correct name and post office address of DEC is Duke Energy Carolinas, LLC, Post Office Box 1321 (DEC 45A), Charlotte, North Carolina 28201-1006.

2. The correct name and post office address of DEP is Duke Energy Progress, LLC, Post Office 1551, Raleigh, North Carolina 27602.

Notices and Communications

3. The name and addresses of the attorneys of the Companies who are authorized to receive notices and communications with respect to this Joint Petition are:

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Copies of all pleadings, orders or correspondence in this proceeding should be served upon the attorneys listed above.

Description of the Companies

4. DEC is engaged in the generation, transmission, distribution, and sale of electric energy at retail in the western portion of South Carolina and the central and western portions of North Carolina. DEC also sells electricity at wholesale to municipal, cooperative, and investor-owned electric utilities, and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). DEC is a public utility under the laws of South Carolina and is subject to the jurisdiction of this Commission with respect to its operations in this State. DEC is also authorized to transact business in North Carolina and is a public utility under the laws of that state. Accordingly, its operations in North Carolina are subject to the jurisdiction of the North Carolina Utilities Commission ("NCUC").

5. DEP is engaged in the generation, transmission, distribution, and sale of electric energy at retail in the eastern portion of South Carolina and in portions of western, central, and eastern North Carolina. DEP also sells electricity at wholesale to municipal, cooperative, and investor-owned electric utilities, and its wholesale sales are subject to FERC jurisdiction. DEP is a public utility under the laws of South Carolina and is subject to the jurisdiction of this Commission with respect to its operations in this State. DEP also is authorized to transact business in the State of North Carolina and is a public utility under the laws of that state. Accordingly, its operations in North Carolina are subject to the jurisdiction of the NCUC.

Measures Undertaken by the State of South Carolina, the Commission, the Office of Regulatory Staff and the Companies in Response to the COVID-19 Pandemic

6. On March 13, 2020, Governor Henry McMaster issued Executive Order No. 2020-08 declaring a State of Emergency in South Carolina to initiate the coordination of a response and protective actions to prevent the spread of COVID-19.

7. In order to ensure that customers would continue to receive essential utility services during this time of uncertainty, the Companies suspended disconnection of any customer's service for non-payment, including reconnecting some prior non-payment disconnections, effective March 13, 2020.

8. On March 15, 2020, Governor McMaster issued Executive Order No. 2020-09 finding that further proactive action was necessary to protect the health and safety of the residents of South Carolina, slow the spread of the COVID-19 Pandemic, and reduce the number of people infected by "community spread." Executive Order No. 2020-09 urged indoor and outdoor public gatherings be limited to not exceed 100 persons and closed schools to limit the spread of COVID-19.

9. On March 17, 2020, Governor McMaster further issued Executive Order No. 2020-10, closing retail food establishments and on March 19, 2020 issued Executive Order No. 2020-11 which included emergency measures for unemployment claims and benefits for South Carolinians impacted by the COVID-19 Pandemic.[1]

10. On March 16, 2020, in response to instruction received by Governor McMaster, the South Carolina Office of Regulatory Staff ("ORS") filed a request with the Commission for a waiver of various regulations including S.C. Code Reg. 103-339.3 *Late Payment Charges* and 103-352 *Procedures for Termination of Service*.[2] On March 18, 2020, the Commission granted the waiver request and directed all regulated utilities to suspend disconnection of service during the COVID-19 Pandemic.[3]

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[1] Governor McMaster subsequently issued executive orders regarding "social distancing," postponing elections, prohibiting gatherings of more than three people and extending the State of Emergency. *See* Executive Orders 2020-08 through 19, 21 through 23, 25, 28 through 31, 33 through 38, 40, 42 and 44 (March 13, 2020 through July 11, 2020).

[2] ORS filed a letter with the Commission on March 18, 2020 clarifying the waiver request was for 103-352(g) and not the entire regulation.

[3] Directive-Order No. 2020-228, Docket No. 2020-106-A, *Actions in Response to COVID-19*.

11. The Companies and Piedmont Natural Gas Company, Inc. ("Piedmont") filed letters with the Commission on March 18, 2020 and March 20, 2020, in Docket No. 2020-106-A, *Actions in Response to COVID-19*, advising of their response to the COVID-19 Pandemic, including the Companies' decision to waive all late-payment fees, return check charges, reconnection fees, and residential customers' electronic payment fees not already included in rates (collectively, the "Fees").

12. On April 30, 2020, ORS requested the Commission temporarily waive the requirement that deferred payment plans be limited to six months and allow utilities to offer its customers a longer deferred payment plan.[4] The Companies and Piedmont filed a letter in support of the ORS petition on May 5, 2020, in which they also advised the Commission they were proactively reaching out to customers who are more than 60 days late on their bills to offer enrollment in payment arrangement plans. The Commission granted the temporary waiver so that utilities could offer customers greater flexibility and terms longer than six months to pay utility bill arrearages in Order No. 2020-344.[5]

13. On May 8, 2020, ORS requested the Commission require utilities to track the cost, revenue shortfall and savings impacts of the COVID-19 Pandemic and report to the Commission on a quarterly basis.[6] ORS also requested that Commission direct utilities and interested stakeholders to file comments regarding whether modifications to utility practices or other opportunities existed that could assist utilities and their customers to counteract the impacts of the COVID-19 Pandemic.[7] ORS specifically requested comments regarding the following possible

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[4] *See* ORS Petition for Waiver of Commission Regulations and Amendment of Order filed in Docket No. 2020-106-A (April 30, 2020).
[5] The Commission issued amended Order No. 2020-344(A) to correct scrivener's errors on May 28, 2020.
[6] *See* ORS Motion to Solicit Comments from Utilities and Other Interested Stakeholders Regarding Measures to be Taken to Mitigate Impacts of COVID-19 on Utility Customers and Require Recordkeeping filed in Docket No. 2020-106-A (May 8, 2020).
[7] ORS Motion at Page 2, para. 4.

measures or modifications: (1) On-Line Payment and Credit Card Processing Fees; (2) Late Payment Fees; (3) Returned Check Charges; (4) Credit Reporting; (5) Communication Regarding Safety Net Provisions; and (6) Planning Return to Normal Operations.[8] In Order No. 2020-372 on May 14, 2020, the Commission granted the ORS request and required utilities file comments on or before noon, May 22, 2020, as well as to track revenue impacts, incremental costs and savings related to the COVID-19 Pandemic for reporting to the Commission on quarterly basis.[9]

14. ORS filed a letter with the Commission on May 13, 2020, which included correspondence from Governor McMaster expressing appreciation for the efforts of regulators and utilities related to the COVID-19 Pandemic and requesting utilities take steps to return to normal business operations while continuing to provide flexibility and assistance to customers and customers.[10]

15. On May 14, 2020, the Commission issued Order No. 2020-374 vacating the waivers of Commission Regulations regarding termination of service as previously granted in Order No. 2020-228 as well as the provision in the order directing utilities suspend disconnection of service for non-payment. Order No. 2020-374 also required that, prior to terminating utility service, utilities refer customers needing assistance to local aid organizations and to arrange payment plans intended to avoid or minimize penalties and service interruptions.

16. On May 22, 2020, the Companies filed joint comments with the Commission in response to Order No. 2020-372 including information regarding the specific potential modifications outlined by ORS, the Companies' current timeline for return to normal operations,

[8] ORS Motion at Pages 2-4.
[9] Hearing Officer Directive 2020-41-H was issued on May 21, 2020 to clarify the Commission was also seeking comments from other interested stakeholders in addition to the regulated utilities.
[10] *See* ORS letter with letter from Governor McMaster attached filed in Docket No. 2020-106-A (May 13, 2020).

assistance to their customers, as well as some of the initial financial consequences of the COVID-19 Pandemic.[11]

17. On June 30, 2020, as required by Commission Order No. 2020-372, the Companies filed their quarterly report on the revenue impacts, incremental costs and savings related to the COVID-19 Pandemic ("June 30th Report"), attached to this Petition for convenience as Attachment A. As detailed in Section I of the June 30th Report, as of May 31, 2020, DEC SC reported an estimated $8 million loss of fixed costs not recovered and DEP SC reported an estimated $4 million loss of fixed costs not recovered, and significant arrearages.[12] The Companies also reported incremental COVID-19 Pandemic costs stemming from actions to provide customers' relief as described above as well as to ensure safety of employees and to facilitate ongoing remote work. As reported in Section II of the June 30th Report, incremental COVID-19 costs incurred through May 31, 2020, were approximately $3.4 million for DEC and $1.3 million for DEP ("Incremental COVID-19 Costs"). As discussed in greater detail below, DEC and DEP are not seeking deferral of fixed costs not recovered but are seeking deferral of the types of ongoing costs being incurred in response to the COVID-19 Pandemic described as the Incremental COVID-19 Costs.[13] Since the June 30th Report was filed, the Companies have seen such costs and impacts grow. As of the end of June, the Incremental COVID-19 Costs have increased to approximately $4.9 million for DEC and $1.9 million for DEP.

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[11] *See* Joint Comments of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC filed in Docket No. 2020-106-A (May 22, 2020).

[12] "Fixed costs not recovered" reflects the impact of the change in kWh to revenues less associated fuel, O&M (uncollectible rate, reg fee and variable O&M rate) and taxes.

[13] While the Companies did report minor savings, they do not materially alter the financial impact to the Companies described in this Petition.

Financial and Operational Impacts Due to the COVID-19 Pandemic

18. As essential utilities with the critical obligation to maintain electricity for approximately 4 million combined customers in South Carolina and North Carolina during the COVID-19 Pandemic, DEC and DEP have had to implement needed changes to their business operations. Among other things, the Companies have had to, and will continue to, provide employees with the appropriate personal protective equipment so that safe work practices to serve customers is possible and vital infrastructure work can continue. Information technology changes have been needed to implement remote-work practices designed to mitigate the risk of social spread of coronavirus. These modifications have all been required in response to South Carolina's State of Emergency orders and federal guidelines and have supported the Companies' continued ability to provide reliable electricity service to its customers.

19. DEC and DEP have and will continue to incur materially negative financial impacts from the measures required to cope with the COVID-19 Pandemic over and above the revenue impact from reduced sales. These costs through May 31, 2020, have been captured on the June 30th Report and described above. Although the Companies have been adversely impacted by reduced revenues due to loss of demand, DEC and DEP seek deferral authority for only the Incremental COVID-19 Costs, which are the increased costs and waived fees described in the June 30th Report and in this Petition. Updated with financial data through June 30, 2020, the Incremental COVID-19 Costs to date are shown below:

Incremental COVID-19 Costs[14]	**DEC SC through May 31, 2020**	**DEP SC through May 31, 2020**	**DEC SC through June 30, 2020**	**DEP SC through June 30, 2020**	**DEC SC Projected 2020**	**DEP SC Projected 2020**
Customer Fees Waived	$ 1,414	$ 613	$1,983	$873	$3,823	$1,701
Bad Debt/Charge-offs (incremental to amount set in rates)	321	233	867	441	1,636	848
Employee Stipends	443	108	443	108	443	108
Safety Related - PPE, testing, signage, extra cleaning, etc.	985	252	1,292	360	1,392	419
Costs for remote work - IT, MS Teams, bandwidth, servers	138	42	186	57	317	96
Other (primarily labor)	133	41	174	48	832	204
Total Incremental Covid-19 Costs	**$ 3,434**	**$ 1,289**	**$ 4,945**	**$ 1,887**	**$ 8,443**	**$ 3,376**

These costs were described in the Companies' June 30th Report filed with the Commission.

20. DEC and DEP, like other public utilities, are not immune to the financial challenges brought on by the crisis and are experiencing reductions in load and associated revenues due to the lack of operations of non-essential businesses during this crisis. Numerous commissions across the country have addressed similar requests and situations resulting from the COVID-19 Pandemic. As of July 30, 2020, approximately twenty-nine states and the District of Columbia have issued orders or have legislation related to cost recovery that allow deferral/regulatory asset treatment in connection with the COVID-19 Pandemic.[15] These decisions do not account for

[14] Costs are shown in thousands. Please note, these costs as incurred will continue to be reported in the quarterly reports required by Commission Order No. 2020-372.

[15] **Alaska** (ALASKA STAT. § SB 241 (2020)) (the Regulatory Commission of Alaska also opened Docket No. I-20-001 to gather information related to public utilities' actions and compliance with SB 241); **Arkansas** (*In the Matter of*

Administrative Orders Relating to the Covid-19 State of Emergency, Docket No. 20-012-A (May 27, 2020)), **Arkansas** (*In the Matter of Administrative Orders Relating to the COVID-19 State of Emergency*, Order No. 4, Docket No. 20-012A (July 10, 2020); **Connecticut** (*Emergency Petition of William Tong, Attorney General for the State of Connecticut, for a Proceeding to Establish a State of Emergency Utility Shut-Off Moratorium*, *Interim Decision*, Docket No. 20-03-15 (Apr. 29, 2020); **Delaware** (*In the Matter of the State of Emergency for the State of Delaware Due to a Public Health Alert*, Order No. 9588 (May 14, 2020)); **District of Columbia** (*In the matter of the Establishment of Regulatory Assets for Covid-19 Related Incremental Costs*, Order No. 20329, Docket No. GD-2020-01-M (Apr. 15, 2020); **Florida** (*Re: Docket No. 20200151-El—Petition for Approval of a Regulatory Asset to Record Costs Incurred Due to COVID-19, by Gulf Power Company*, Docket No. 20200151-EI (June 24,2020); (Transcript of Commission Conference Agenda Item No.6, *Petition for approval of a regulatory asset to record costs incurred due to COVID-19, by Gulf Power Company*, Docket No. 20200151-EI (July 7, 2020); *see also Re: Docket No. 20200151-El—Petition for Approval of a Regulatory Asset to Record Costs Incurred Due to COVID-19, by Gulf Power Company*, Docket No. 20200151-EI (June 24,2020) (Note: In Florida, there was a deferral approved for at least one company on a company specific basis, and pending for others within the jurisdiction.)); **Georgia** (*In Re: Georgia Power Company's 2019 Rate Case, Order on COVID-19 Costs*, Docket No. 42516 (Apr. 7, 2020); *In Re: Georgia Power Company's 2019 Rate Case, Order Approving Deferral of Incremental COVID-19 Costs*, Docket No. 42516 (July 16, 2020) (Note: in Georgia, the PSC stated that COVID-19 costs will be addressed through an existing adjustment mechanism for at least one utility)); **Hawaii** (*Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc., and Maui Electric Company, Limited, For Approval to Defer Costs Associated with the COVID-19 Pandemic Emergency Related Costs and Expenses*, Order No. 37192, Docket No. 2020-0069 (June 30, 2020)); **Idaho** (*In the Matter of Deferred Accounting of Incremental Costs Associated with COVID-19 Public Health Emergency*, Case Nos. GNR-U-20-03, AVU-E-20-03, AVU-G-20-03, FLS-W-20-02, GSW-W-20-01, IPC-E-20-19, and PAC-E-20-04 (April 23, 2020); **Illinois** (*In the Matter of Moratorium on Disconnection of Utility Services During the Public Health Emergency Declared on March 9, 2020 Pursuant to Sections 4 and 7 of the Illinois Emergency Management Agency Act*, Docket No. 20-0309 (June 18, 2020)); **Indiana** (*Phase 1 and Interim Emergency Order of the Commission,* Cause Nos. 45377, 45380 (June 29, 2020)); **Iowa**, *Order Authorizing Regulatory Accounts Establishing Additional Reporting Instructions*, Docket Nos. SPU-2020-0003, ARU-2020-0123, ARU-2020-0150, ARU-2020-0156, ARU-2020-0222, ARU-2020-0225 (May 1, 2020)); **Kansas** (*In the Matter of Addressing the COVID-19 Pandemic in the State of Kansas*, *Order Concerning Kansas Jurisdictional Utilities Following Expiration of Prohibition of Disconnects,* Docket No. 20-GIMX-393-MIS (May 21, 2020)); **Louisiana (***In Re: Special Orders 22-2020 and 28-2020, ratification and termination of Executive Order dated March 13, 2020 regarding utilities prohibited from disconnecting customers during the statewide public health emergency associated with COVID-19,* Special Order No. 44-2020 (July 1, 2020)); **Maryland** (*State of Emergency and Public Health Emergency in the State of Maryland Due to Covid-19, Order Authorizing Establishment of a Regulatory Asset for COVID-19 Related Incremental Costs*, Case No, 9639 (Apr. 9, 2020); **Michigan** (*In the matter, on the Commission's own motion, to review its response to the novel coronavirus* (*COVID-19*) *pandemic, including the statewide state of emergency, and to provide guidance and direction to energy and telecommunications providers and other stakeholders*, Case No. U-20757 (July 23, 2020)); **Minnesota** (*In the Matter of the Request of Minnesota Regulated Gas and Electric Utilities for Authorization to Track Expenses Resulting from the Effects of COVID-19 and Record and Defer Such Expenses into a Regulatory Asset*, Docket Nos. E,G-999/CI-20-425, E,G-999/M-20-427 (May 22, 2020)); **Mississippi** (*In Re: Mississippi Public Service Commission Omnibus Docket, Order Authorizing Utility Response and Accounting for COVID-19*, Docket No. 2018-AD-141 (Apr. 14, 2020)); **Nevada** (*Emergency Order Related to Utility Service and COVID-19*, Docket No. 20-03021 (Mar. 27, 20200); **New Jersey** (*In the Matter of the New Jersey Board of Public Utilities' Response to the COVID-19 Pandemic, Order Authorizing Establishment of a Regulatory Asset for Incremental COVID-19 Related Expenses*, Docket No. AO20060471 (July 12, 2020)); **New Mexico** (*Order Authorizing Creation of a Regulatory Asset by Public Utilities for Costs Associated with Emergency Conditions*, Case No. 20-00069-UT (June 24, 2020)); **Ohio** (*Finding and Order*, Case Nos. 20-650-EL-AAM, 20-651-EL-UNC, 20-652-EL-WVR, 20-755-EL-AEC (May 20, 2020)); **Oklahoma** (*Interim Order*, Order No. 711412, Cause No. PUD 202000050 (May 7, 2020)); **Pennsylvania** (*Re: COVID-19 Tracking and Creation of Regulatory Asset*, Docket No. M-2020-3019775 (May 13, 2020)); **Texas** (*Issues Related to the State of Disaster for the Coronavirus Disease 2019, Order Related to Accrual of Regulatory Assets*, Project No. 50664 (Mar. 26, 2020) (Note: in Texas, a deferral order was approved for at least one vertically integrated utilities and delivery-only utilities; the PUC established a COVID-19 specific funding mechanism to address bad debt for competitive retail electric providers)); **Virginia** (*Ex Parte: Authority to Create Regulatory Asset*, Case No. PUR-2020-00074 (Apr. 29, 2020)); **West Virginia** (*Commission General Order Regarding Additional, Extraordinary Costs During COVID-9 West Virginia State of Emergency*, General Order No. 262.4 (May 15, 2020) (allowing deferral for jurisdictions or utilities which have in place existing rider recovery mechanisms or formula rates that allow for the real-time collection of such costs. The Companies believe that this Commission should likewise approve the deferral of Incremental COVID-19 Costs requested herein due to the extraordinary impacts of the COVID-19 Pandemic.

21. DEC and DEP are experiencing reductions in load and associated revenues due to the lack of operations of non-essential businesses during this crisis over and above the Incremental COVID-19 Costs. Due to rate setting restrictions, the Companies cannot adjust their prices to account for these losses but neither can they materially alter their operations to fully mitigate the impacts. As providers of essential utility services, DEC and DEP cannot limit their losses by simply shutting down. Rather, the Companies have an obligation to continue reliably serving their customers and must continue to have adequate resources and facilities available to deliver safe and reliable electric service, even during these unprecedented circumstances and even when customers have been relieved of the obligation to pay under normal parameters. The Companies have been able to reduce certain operating expenses, such as reduced employee expenses due to travel restrictions and reduced postage and print savings due to not sending disconnect letters. However, these savings do not provide any meaningful offset compared to the Companies' significant revenue reductions and costs during the COVID-19 Pandemic.

22. The Companies must also be ready to meet the pre-COVID-19 Pandemic demand when it returns and to meet the challenges of active storm seasons and the threat of hurricanes and tornadoes. At the same time, the Companies are mindful of the economic impacts to customers

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privately-owned utilities and use of cash working capital reserve funds to offset COVID-19 costs for publicly-owned utilities); **Wisconsin** (*Accounting Treatment for Utility Costs Incurred Due to and During Declared Public Health Emergency for COVID-19*, *Supplemental Order-First*, PSC REF#: 389500, 5-AF-105 (May 14, 2020)); **Wyoming** (*In the Matter of the Commission's Consideration on Its Own Motion or a Temporary Grant of Authority for Public Utilities to Suspend Certain Tariffs Pertaining to Discontinuation of Service, Late Charges and Similar Matters*, *Order Authorizing Suspension of Certain Tariffs, Rules, Regulations and Similar Terms of* Service, Docket No. 90000-151-XO-20, Record No. 15474 (Mar. 26, 2020)).

and are taking cost cutting measures, as appropriate, to reduce their operating expenses, without negatively impacting reliability of service to customers. Notwithstanding these measures, the resulting reduction in cash generation due to the COVID-19 Pandemic is a burden to the Companies during a time when liquidity is a challenge throughout the industry. The above-described actions already taken by the Companies in response to the COVID-19 Pandemic and the Commission's orders addressing this crisis have impacted the Companies' revenues and cash flows. Additionally, the recent volatility in the debt and equity markets has increased pressure on liquidity for most industries, including utilities. For these reasons, DEC and DEP seek carrying costs on the deferred amounts (Incremental COVID-19 Costs) to compensate the Companies for the time value of money advanced by shareholders until recovery is complete and the deferred amounts can be addressed by the Commission in future rate cases. The Companies propose to use their respective weighted average cost of capital, as approved in the Companies' most recent base rate cases.

23. In addition to the incremental additional operational costs incurred to continue their critical business operations during the COVID-19 Pandemic, the Companies are, as noted above, taking actions to ensure service continuity for customers. In waiving the fees and suspending disconnections for non-payment, however, the Companies are incurring incremental financial losses. The financial losses incurred in responding to the COVID-19 Pandemic, including forgoing the types the revenue streams afforded through tariffed charges for late payment and reconnections, are all costs being incurred by the Companies. Such dramatic changes were not and could not have been anticipated when then Companies' rates were established.

24. South Carolina has yet to emerge from the impacts of the COVID-19 Pandemic and it is impossible to predict when that will occur or how long those impacts will linger. It is known

that DEC and DEP are experiencing a significant reduction and fluctuation in the Companies' demand and associated revenues due to many reasons, including but not limited to, commercial and industrial customers closing or scaling back operations. Initially restaurants, the hospitality industry, salons and other service-related businesses either shut their doors for a period of time or found new methods of providing services with vastly altered electricity demand. Subsequently, some have opened partially, but with only varying success. Sporting events and entire seasons have been cancelled. Innumerable workers have been prevented from going to their offices or places of work and instead, if working at all, are now working from home, shifting electric demand from nonresidential to residential rate schedules. Some office buildings have been closed altogether. Many customers have reduced incomes or have been laid off completely. Schools, universities and day care establishments to varying degrees have suspended classes and operations, and students have been home schooled or are studying virtually, again shifting vastly reduced demand to residential schedules. Congress passed stimulus legislation to lessen the impact of the COVID-19 Pandemic on the economy, but some of the benefits have expired. The Federal Reserve Board likewise has acted to ameliorate the COVID-19 Pandemic's impact. Congress is considering additional stimulus legislation although there is uncertainty as to the magnitude of the new stimulus package. The ultimate effect of these efforts is difficult to measure. The Companies are hopeful that the impacts to date on their operations and the toll that has been taken on their customers will end sooner rather than later, but with cases surging and uncertain future, this further supports the conclusion that the Companies should be permitted to defer the costs being incurred while the effects of the COVID-19 Pandemic continue to affect their operations.

25. In addition to incurring the Incremental Covid-19 Costs, revenues are down and thus do not cover the shortfall. During the second quarter in 2020, billed weather normalized total

retail sales in South Carolina are down for DEC approximately 8% compared to 2019; and for DEP they are down approximately 5% compared to 2019. The Companies are not asking to include the effect of such reduced revenues in the regulatory asset accounts being requested, and they are not included in the calculation of Incremental Covid-19 Costs—however, they do illustrate and exacerbate revenue degradation and accounting impact if the requested regulatory asset treatment for the Incremental COVID-19 Costs is not granted. The detailed chart below shows the billed volume differences for the periods April through June 2020 versus April through June 2019 for South Carolina:

Billed Volumes Differences – Q2 2019 versus Q2 2020 (in kWh)	**Q2 2019**	**Q2 2020**	**Change**
DEC			
Residential	1,384,793,173	1,428,227,889	43,434,716
General Service	1,237,712,927	1,134,607,876	(103,105,051)
Industrial	2,287,400,884	1,915,269,979	(372,130,905)
Total	**4,909,906,984**	**4,478,105,744**	**(431,801,240)**
DEP			
Residential	414,216,480	417,712,549	3,496,069
General Service	447,906,877	385,847,916	(62,058,961)
Industrial	527,157,189	510,240,690	(16,916,499)
Total	**1,389,280,546**	**1,313,801,155**	**(75,479,391)**

26. Absent the requested deferral of current and ongoing Incremental COVID-19 Costs, the Companies will face significant earnings degradation arising from the COVID-19 Pandemic, impacting DEC's return on equity by approximately 81 basis points and impacting DEP's return on equity by approximately 59 basis points. These effects are material to the Companies' financial standing. It is important to note that if the requested accounting treatment is granted, the impact is still negative but somewhat mitigated. Even if regulatory asset treatment

is granted, the impact of the COVID-19 Pandemic on return on equity is approximately 61 basis points for DEC and 34 basis points for DEP.

27. The Companies' authorized returns on equity are each 9.5%.[16] DEC's adjusted return on equity reported in its quarterly financial report for the twelve months ended March 31, 2020 filed in Docket 2006-268-E was 8.33%. Thus, absent approval of this request, DEC's return on equity for its South Carolina retail operations is expected to be 7.52% -- well below the return last authorized by the Commission. DEP's adjusted return on equity reported in its quarterly financial report for the twelve months ended March 31, 2020 filed in Docket 2006-270-E was 4.94%. Thus, absent approval of this request, DEP's return on equity for its South Carolina retail operations is expected to be 4.35% -- well below the return last authorized by the Commission.

Deferral Request and Accounting Treatment

28. As it became clear that the COVID-19 Pandemic would have serious and systemic impacts across the state of South Carolina, utilities, the ORS, and the Commission each took action in a concerted effort to mitigate the impacts on customers and to provide assistance to customers where possible. This concerted effort is well-documented in Docket No. 2020-106-A, opened by the Commission on March 15, 2020, when it first docketed a message from Duke Energy regarding its first steps in responding to the COVID-19 Pandemic. In a filing made on March 16, 2020 in the same docket, ORS sought waivers of certain regulations that would permit the suspension of late payment fees and disconnection of utility service. In ORS's filing, it also recognized the likely financial impact to utilities, and offered that the Commission "direct the utilities to provide a report to the Commission as to their financial impact related to the waivers discussed herein and other

[16] Commission Order No. 2019-323 issued in Docket No. 2018-319-E, *Application of Duke Energy Carolinas, LLC for Adjustments in Electric Rate Schedules and Tariffs* (May 21, 2019) and Commission Order No. 2019-341 issued in Docket No. 2018-318-E, *Application of Duke Energy Progress, LLC for Adjustments in Electric Rate Schedules and Tariffs* (May 21, 2019).

actions which may be necessitated in addressing customer needs for COVID-19." The Commission acted swiftly. On March 18, 2020, the Commission issued Order No. 2020-228, granting the requested waivers, directing that all regulated utilities suspend service disconnections, granting authority for the waiver of reconnection fees, and directing utilities to track the related financial impacts. On May 7, 2020, the Commission issued Order No. 2020-344, which made the following findings:

> After examination of this matter, we agree with ORS in stating that the unemployment rate in South Carolina has skyrocketed, with many South Carolinians out of work, or working significantly reduced hours as a result of the pandemic, creating economic hardships for many ratepayers. Additionally, reduced usage from businesses is expected to impact the fixed cost recovery and revenue assumptions included in rates designed to collect the utilities' costs incurred in serving customers.

Order No. 2020-344 at 4, Docket No. 2020-106-A (May 7, 2020). The Commission also recognized that "more flexibility is necessary to assist utilities and their customers in mitigating the hardship many are currently facing," and permitted utilities to offer longer deferred payment arrangements to assist customers with bill payment.

29. The Commission was prescient in recognizing that "reduced usage from businesses is expected to impact the fixed cost recovery and revenue assumptions included in rates designed to collect the utilities' costs incurred in serving customers." *Id.* Indeed, the rates designed and established in the Companies' rate cases do not and could not have accounted for the unprecedented challenges associated with the COVID-19 Pandemic, and the Companies' responses are exactly the type of unique circumstances that support the Companies' requested regulatory treatment.

30. Other parties have recognized the impact of the COVID-19 Pandemic on not only utility customers, but on the utilities themselves. For example, in comments filed in Docket No.

2020-106-A on May 22, 2020, Vote Solar recognized the need to consider and mitigate the impact of the COVID-19 Pandemic on utilities, and supported the use of a "deferral/regulatory asset to account for COVID-19-related cost increases," as such "gives the Commission flexibility for future treatment of these costs and puts utilities on notice that any prospective net offsets might be subject to refund at a future time through the appropriate proceeding." Vote Solar cites to and included as Attachment C to its filing an article authored by Jim Lazar titled "Synchronizing the Regulatory Response to COVID-19." In the article, Lazar points to a number of factors related to the COVID-19 Pandemic that are putting pressure on utilities and which should be considered when developing a regulatory response; these include lower utility revenues, decreased demand, changes in labor costs and dynamics, increases in accounts receivable, adjustments to utility investments, and changes to utility operations.

31. Moreover, as recently explained by the Commission, the purpose of a test year and making adjustments

> is to permit sufficient and accurate cost recovery as the expenses are incurred by the utility in real-time. In other words, the purpose of this ratemaking exercise of using a test year and making appropriate adjustments is to match—as closely as possible—the utility's revenue to the costs it will incur after the rates are implemented.

Order No. 2019-323, Docket No. 2018-319-E at 15-16 (May 21, 2019) (citing *Southern Bell Tel. & Tel. Co. v. S.C. Pub. Serv. Comm'n*, 270 S.C. 590, 602 (1978)). In cases where a significant change in revenues or expenses creates a material mismatch between the approved level of revenues and the utility's costs, deferral treatment is appropriate to act as a bridge until the change can be accounted for in the next proceeding adjusting rates. This is as much true for material changes that benefit customers—for example, the change in corporate tax liability resulting from the Tax Cuts and Jobs Act of 2017 for which the Companies tracked a regulatory liability for the benefit of customers—as it is for changes that materially impact utilities' earnings.

32. The Companies believe this Joint Petition is consistent with the case law and policy in this State of allowing accounting orders to address unique circumstances or challenges. As one example, the Commission recently issued an accounting order permitting DEC to defer in a regulatory asset certain costs incurred in connection with the deployment of Advanced Metering Infrastructure ("AMI"), including the accrual of carrying costs at DEC's weighted average cost of capital. Order No. 2016-489, Docket No. 2016-240-E (July 12, 2016). The Commission recognized that deferral treatment would "allow the Company to bridge this timing gap until the Company's next rate case while installing technology that the Company reports will enable the customer benefits listed above." *Id.* at 3. The Commission further reasoned as follows:

> The incremental annual depreciation and amortization expense that DEC expects to incur, meter by meter, during deployment is not currently included within its existing base rates. Therefore, it is not possible for the Company to "match" this expense with revenue to be collected. With such a mismatch of expense to revenue, the costs from this unusual type of deployment is a fundamental departure from the matching principle.

Id. at 4. Likewise, in this case, while customers have benefited from the Companies' swift actions to provide relief and continue service during the COVID-19 Pandemic, these actions and the associated expenses were not accounted for when rates were set in the Companies' recent rate cases, and there is therefore a mismatch of expense to revenue. As in Docket No. 2016-240-E, the Companies "will face earnings degradation," which "could impair the Companies' financial stability and ability to attract capital on reasonable terms." *Id.* Approval of this deferral request for Incremental COVID-19 Costs will benefit the Companies and customers by helping to assure investors' confidence in DEC and DEP and help assure continued access to needed capital.

33. As another example, the Commission recently authorized deferral treatment — in Order No. 2017-52 — in a case where DEP would face earnings degradation. The Commission found and concluded that granting DEP's request would help "to assure investors' confidence in DEP and help assure access to needed capital on reasonable terms." Order No. 2017-52 at 5, Docket No. 2016-408-E (Jan. 24, 2017). In that Order, the Commission found that granting DEP's deferral request—including the accrual of carrying costs at DEP's weighted average cost of capital—was consistent with the public interest. *Id.*

34. Based on these and other examples,[17] as well as with the fundamental principle that there should be a general matching between a utility's revenues and its expenses, the Companies believe that this request is consistent with case law and policy in this State. The request does not involve a change to any DEC or DEP rate or tariff. As a result, neither notice to the public nor a hearing is required, consistent with S.C. Code Ann. § 58-27-870(F). Absent approval of an accounting order for the Companies' Incremental COVID-19 Costs, the Companies will face significant earnings degradation arising from the COVID-19 Pandemic impacting their return on equity as described above. These effects could impair the Companies' financial stability and ability to attract capital on reasonable terms during a time of turmoil in the financial markets.

35. Approval of this deferral request will benefit the Companies and their customers by helping to assure investors' confidence in DEC and DEP, and to help support the Companies' actions taken in support of customers during this unprecedented crisis.

[17] *See, e.g.*, Order No. 2018-552, Docket No. 2018-207-E (Aug. 7, 2018) (approving for DEC the establishment of a regulatory asset to defer costs, including carrying costs, associated with certain investments); Order No. 2018-553, Docket No. 2018-205-E (Aug. 9, 2018) (approving for DEP the establishment of a regulatory asset to defer costs, including carrying costs, associated with certain investments); Order No. 2018-751, Docket No. 2018-206-E (Nov. 13, 2018) (approving for DEC and DEP the establishment of a regulatory asset to defer costs, including carrying costs, associated with grid reliability, resiliency, and modernization work); Order No. 2020-295, Docket No. 2019-26-E (Apr. 7, 2020) (approving for DEP the establishment of a regulatory asset to defer costs, including carrying costs, associated with the utility's response to Hurricane Dorian).

Conclusion

36. The Companies understand their unique role to the citizens and businesses of this State. The Companies provide an essential service, and must continually and reliably provide that service, in spite of global pandemics, amid storms and hurricanes, and associated economic challenges. While Duke Energy is proud that it has risen to the challenge of "keeping the lights on" and making accommodations for its customers to ensure they have been able to enjoy continuous service, the Companies' efforts have not been without a significant cost. Because of the unprecedented nature of the COVID-19 Pandemic and the negative financial impact on the Companies, and because the pandemic and its effects were not and could not have been anticipated when the Companies' rates were established, an accounting order permitting the establishment of a regulatory asset for future recovery of the Companies' Incremental COVID-19 Costs is appropriate.

37. The granting of an accounting order in this case for the Incremental COVID-19 Costs would be consistent with the public interest and prior Commission decisions. The Companies acted swiftly to respond to customer needs and challenges to keep communities and employees safe during the ongoing COVID-19 Pandemic. The pandemic is unprecedented and has had unprecedented effects on South Carolina's economy and the citizens of this state, and the Companies believe that the pandemic and the Companies' response is precisely the type of unusual or extraordinary circumstances that warrant deferral accounting treatment. Deferral accounting treatment would also mitigate, but not eliminate, the mismatch between the Companies' established rates and the unforeseeable expenses the Companies are incurring in response to the COVID-19 Pandemic. Further, approval of the accounting order request for Incremental COVID-19 Costs with carrying costs will benefit the Companies and their customers by helping to ensure

continued access to necessary capital during these uncertain and rapidly changing economic times. An accounting order granting the relief that the Companies seek will not preclude the Commission or parties from addressing the reasonableness of the costs deferred in the next general rate case proceedings filed by DEC and DEP. Therefore, Duke Energy Carolinas, LLC and Duke Energy Progress, LLC respectfully petition the Commission to allow the Companies to establish a regulatory asset for the Incremental COVID-19 Costs incurred in connection with the COVID-19 Pandemic as described herein.

Respectfully submitted this 14th day of August 2020.

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